

HOUSE BUDGET COMMITTEE

Democratic Caucus

The Honorable John M. Spratt Jr. # Ranking Democratic Member

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Budget Chickens Come Home to Roost

Dear Democratic Colleague:

Democrats have warned since the beginning of the year that the President's budget was a mistake. Not six months ago, George Bush was inaugurated President of the United States with the largest federal budget surplus in our nation's history. Now, he and Congressional Republicans have squandered that surplus. Excluding the surpluses run by the Social Security and Medicare Trust Funds, the Federal budget will be in deficit this fiscal year (2001) and will remain in deficit for the foreseeable future. The oversized Bush tax cut has caused the budget to return to deficit.

The attached tables detail the situation. Just two months ago, in May, CBO projected a \$2.7 trillion surplus outside of Social Security and Medicare. With the Bush tax cut and the spending levels of the Republican budget resolution, the budget now reaches into the Medicare Trust Fund surplus in 2003 and 2004. It barely retains balance in 2005.

But there is still worse news ahead. The administration recently put forward an interim defense request, which was missing from the "budget" submitted earlier in the year. With that additional cost, the budget taps into the Medicare Trust Fund surplus from 2003 through 2007. Further Bush administration requests and other likely developments — recognizing the budget effects of the recent economic slowdown; addressing disasters; extending expiring tax benefits; providing for the full defense buildup including missile defense; and making their tax cut permanent — will put the budget into the Medicare and Social Security Trust Fund surpluses for virtually the entire decade.

President Bush and Republicans in the Congress deny these problems, but their arguments ring hollow. The following are their contentions and the flaws in them:

Myth: The problem is not the Bush tax cut — it is Democratic big spending.

The budget was in surplus — by \$2.745 trillion, to be precise — when George Bush became President. Since then, Congress hasn't enacted a single spending bill. The only pending bills are a supplemental spending bill for the current fiscal year, which was requested by President Bush and the regular appropriations bills, which are set at the levels of the Republican budget resolution. The budget is eating into the Medicare Trust Fund surplus, even with the Bush budget's spending and economic assumptions.

Myth: The problem is not the Bush tax cut — it is the weak economy, a slowdown dating from the last days of the Clinton administration.

President Bush and the Republican Congress knew full well the condition of the economy when they pushed the tax cut. CBO's January budget projection assumed an economic slowdown and still showed a large budget surplus outside of Social Security and Medicare. President Bush simply chose to bet virtually the entire budget on his big tax cut, regardless of the risk that the economic news might prove even weaker.

The Bush argument that the economy is solely responsible for the deterioration of the budget lacks all sense of proportion. Recent press accounts and economic developments suggest that the next CBO budget update will reduce projected ten-year surpluses by about \$200 billion. By contrast, the Bush tax cut has reduced the surplus far more, \$1,350 billion plus an additional cost of about \$300 billion for higher interest payments on the public debt.

Myth: The tax cut will increase economic growth, and we will get more revenue, not less, because of that.

It didn't work that way last time after the Kemp-Roth tax cut in 1981. In the 1980s, business investment was flat, productivity growth was flat, economic growth was flat, and unemployment averaged 7.5 percent for ten years. Individual income tax liability fell for two years running and did not recover to its inflation-adjusted 1981 level until the middle of the decade. By 1983, corporate income tax receipts were barely half what they had been in 1979, and they did not recover to their 1979 level until 1987, even without adjustment for inflation. Total revenue came in way below Reagan administration projections, and the deficit ballooned.

In the 1990s, after the Democratic deficit reduction initiative, Republicans said that the economy would shrink and the deficit would increase. Instead, we had the longest and strongest economic boom in U.S. history, including the strongest sustained expansion of business investment on record.

The Bush prescription for the current economic slowdown is to reverse the policies that got us the record economic expansion of the 1990s — to exchange a policy that worked for one that failed.

Finally, the part of the current tax cut that might help spur a weak economy is the short-term infusion of cash. The part that threatens budget integrity is the long-term drain on the Treasury, largely to provide extravagant tax reductions far into the future to those who need them least. We could instead have had the tax cut that the Democrats proposed, which provided just as much up-front stimulus, as well as a continuing tax cut benefitting all taxpayers that still protected 100 percent of the Medicare and Social Security surpluses.

Sincerely,

/s

John M. Spratt, Jr.

Ranking Democratic Member

Bush Budget Scorecard

Billions of Dollars

	<u>2001</u>	<u>2002</u>
Total (Unified) Surplus	275	304
<i>Less:</i> Social Security Surplus	156	172
Medicare HI Surplus	28	38
<i>Equals:</i> Available Surplus	92	95
<i>Less:</i> Tax Cut & Budget Res. Spending	86	70
<i>Equals:</i> Remaining Surplus	6	25
<i>Less:</i> Initial Defense Request	0	10
<i>Equals:</i> Remaining Surplus	6	15
<i>Less:</i> Likely Further Action (Disasters, Tax Extenders, Tax Sunsets, Full Defense Buildup)	0	2
<i>Equals:</i> Remaining Surplus	6	13
<i>Less:</i> Possible CBO Revision	21	25
<i>Equals:</i> Invasion of Medicare	-15	-14

Precarious Bush Budget Raids Medicare and Social Security

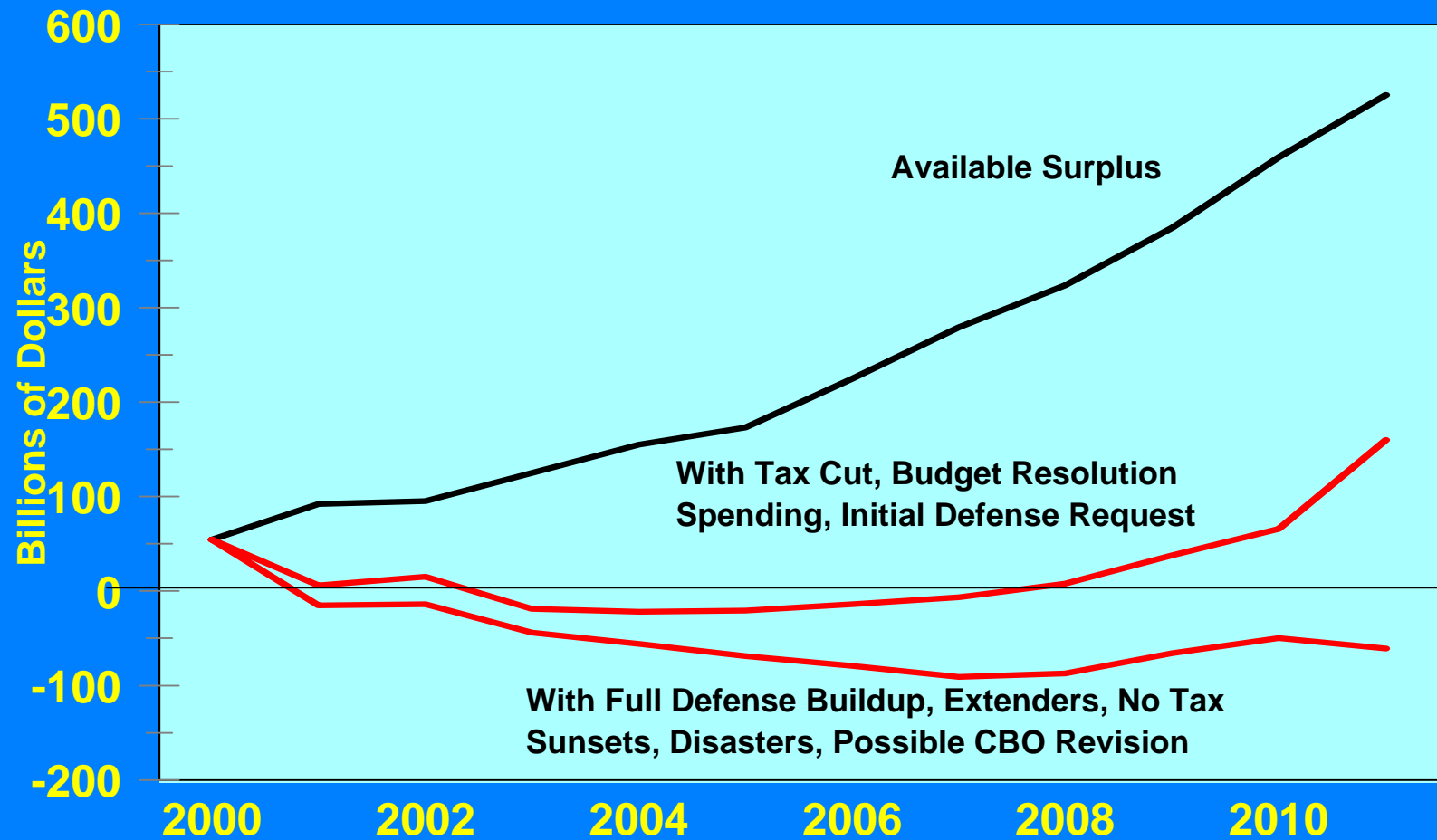


Table 2
EXCESSIVE TAX CUT THREATENS MEDICARE AND SOCIAL SECURITY
 (Billions of dollars; CBO May assumptions)

BUDGET RESOLUTION AND TAX BILL	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2002-11
Baseline Unified Surplus	275	304	353	400	437	508	578	641	718	806	883	5629
Social Security	156	172	187	202	221	238	256	275	293	311	330	2487
Medicare Part A	28	38	41	43	42	45	43	42	40	36	28	397
Available Surplus	92	95	125	155	173	225	279	324	385	459	525	2745
Enacted Tax Cut	74	38	90	107	107	135	151	160	167	187	129	1272
Non-Reconciled Tax Cuts	0	3	3	2	2	3	1	1	1	1	1	20
Medicare Rx and Home Health	0	0	1	11	22	29	40	46	49	54	61	314
Other Health	0	7	13	14	6	7	6	6	6	6	6	77
Agriculture	6	7	8	8	8	7	7	6	6	7	7	74
Veterans	0	0	0	1	1	1	1	1	0	0	0	6
All Other (Budget Resolution)	4	8	3	-4	-2	-4	0	-0	-0	-0	-4	-3
Resulting Net Interest	2	6	11	19	27	38	50	65	81	99	117	514
"Contingency Reserve" 1/	6	25	-5	-4	1	11	21	39	73	104	206	472
 SUBSEQUENT ACTION	 2001	 2002	 2003	 2004	 2005	 2006	 2007	 2008	 2009	 2010	 2011	 2002-11
Bush Defense Request 2/	0	10	14	17	19	21	23	24	26	28	33	214
Resulting Net Interest	0	0	1	2	3	4	5	7	9	11	13	55
Resulting "Contingency Reserve"	6	15	-19	-22	-21	-14	-7	8	38	66	160	203
Spending of Medicare Surplus	0	0	-19	-22	-21	-14	-7	0	0	0	0	-84
 LIKELY FURTHER ACTION	 2001	 2002	 2003	 2004	 2005	 2006	 2007	 2008	 2009	 2010	 2011	 2002-11
Average Historical Emergencies 3/	N.A.	2	4	5	6	6	6	6	6	7	7	55
Tax Extenders and Sunsets 4/	0	1	4	6	10	15	20	23	25	29	126	260
Full Expected Defense Buildup 5/	0	0	7	9	13	17	25	27	28	27	27	181
Resulting Net Interest	0	0	1	1	3	5	8	11	15	19	26	88
Resulting "Contingency Reserve"	6	11	-35	-44	-53	-58	-65	-59	-36	-17	-25	-380
Spending of Medicare Surplus	0	0	-35	-43	-42	-45	-43	-42	-36	-17	-25	-326
Spending of Social Security Surplus	0	0	0	-1	-11	-13	-22	-17	0	0	0	-65
 HBC ESTIMATED AUGUST UPDATE	 2001	 2002	 2003	 2004	 2005	 2006	 2007	 2008	 2009	 2010	 2011	 2002-11
On-Budget Change - Economics 6/	1	5	9	12	16	21	26	28	31	33	36	217
On-Budget Change - Technicals 7/	20	20	0	0	0	0	0	0	0	0	0	20
Resulting "Contingency Reserve"	-15	-14	-44	-56	-69	-79	-91	-87	-66	-50	-61	-617
Spending of Medicare Surplus	-15	-14	-41	-43	-42	-45	-43	-42	-40	-36	-28	-373
Spending of Social Security Surplus	0	0	-3	-14	-27	-34	-48	-45	-26	-13	-33	-244

- 1/ Also equal to the non-Social Security, non-Medicare surplus.
- 2/ Defense increase of \$18.4 billion in budget authority for 2002 over Bush April 2001 defense plan, increased for inflation through 2011.
- 3/ Outlays resulting from House Republican estimate of historical average of \$.5.6 billion per year of emergencies beginning in 2002, adjusted for inflation thereafter.
- 4/ From JCT response to Ways & Means Ranking Democratic Member Rangel, JCT Document #01-1 144 R, June 14, 2001.
- 5/ Further \$200 billion budget authority defense increase for 2003 through 2007 over Bush April 2001 defense plan, increased for inflation through 2011.
- 6/ One-time, one-half percent drop in real growth in CY 2001; one-time, one-quarter percent drop in real growth in CY 2002; one percent reduction in interest rates.
- 7/ Lower bound of private-sector and White House estimates.

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House Budget Committee Democratic Staff